



CHAPTER 10

Making Gifts

ONCE YOU HAVE DEVELOPED CONFIDENCE in an organization in your focus area, you will want to consider how best to support it. This chapter gives an overview of the basics of making gifts and answers these common questions:

- What are the different types of gifts I can make?
- When should I make unrestricted gifts to an organization? When should I make gifts restricted to particular projects or programs?
- Why is it important to pay actual indirect (overhead) costs?
- What size gifts should I make under what circumstances?
- How can I administer and track my giving?
- How long should my gift last?

Although there is no technical distinction between a “gift” and a “grant,” the former term is often used to describe unrestricted donations by individuals that typically have no reporting requirements and the latter to describe donations by foundations that often do include reporting requirements. We use the term “gift” for both.



Types of Funding

Gifts fall into two main categories: unrestricted general operating support (GOS) for the organization overall and restricted funds that are specified for specific programs or projects.

Q. What's the difference between general operating support (GOS) and project support?

A. **GOS**, also known as **unrestricted** or core funding, lets the organization use the funds for any of its programs and operations, at the discretion of its management.

Restricted funds are earmarked for a specific purpose within an organization—for example, the purchase of a particular piece of medical equipment for a health clinic or the development of a volunteer training program.

A gift restricted to an organization's *self-defined program* has the essential characteristics of GOS. For example, a true GOS gift to a university could be used for any of the institution's schools or programs; an unrestricted gift to the university's School of Engineering can be used only for any of the school's purposes. In both cases, it is the administration, rather than the donor, who decides on funding priorities. By contrast, a gift to the university to support research on Alzheimer's disease would be restricted to that particular project.

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practice: Nonprofits need funders who are willing to make flexible, multi-year investments that enable nonprofit leaders to most readily flex their management muscles and capacity for continuous improvement.

We stick with organizations, programs, or grants for a long enough time period to realistically determine whether they can achieve the set goal. We must be patient. Real change takes significant time.

Q. What do leaders in the philanthropic community say about these forms of support?

A. Most philanthropic organizations and sector experts strongly favor multi-year GOS because it gives grantee organizations autonomy and flexibility in allocating funds to best fulfill their missions. Long-term/multi-year GOS gives them the financial stability to support their programmatic work.

EXPERT OPINIONS

- **Independent Sector**—a coalition of nonprofits, foundations, and corporate giving programs—“calls on funders to provide general operating support over project support whenever it is appropriate, feasible, and the goals of the foundation and nonprofit are closely aligned.”⁶⁰
- **Grantmakers for Effective Organizations**, a global network of over 7,000 grantmakers, endorses GOS as a means to support stronger organizational health, allowing nonprofits “to direct their spending where it is needed and focus on running effective programs.”⁶¹
- **Center for Effective Philanthropy**, a research organization focused on producing data to support outcome-oriented funders, found that “grantee organizations who receive large, long-term general operating support grants perceived their foundation funders as having greater impact on their organization than grantee organizations who received other types of grants.”⁶²
- **The Impact-Driven Philanthropy (IDP) initiative**, led by the Raikes Foundation, encourages donors to “provide flexible, multi-year funding” as a good practice.
- In their book ***Money Well Spent***, Paul Brest, Former President of the William and Flora Hewlett Foundation, and Hal Harvey, CEO of Energy Innovation, call unrestricted support “the lifeblood of a nonprofit organization” and note that an organization’s “ability to innovate and its very integrity depend on having control over a substantial portion of its budget.”⁶³

- Phil Buchanan, in his book ***Giving Done Right***, says, “For those organizations with goals and strategies that significantly overlap with yours, provide the unrestricted, long-term, significant funding that’s most helpful to grantees.” GOS helps organizations “get what they need to be effective.”⁶⁴

FOUNDATION PRACTICES

- Throughout its fifty-year history, a majority of the **William and Flora Hewlett Foundation’s** grants have been unrestricted. The foundation explains in its Guiding Principles that it is committed to “providing long-term general operating support to anchor institutions in the fields in which we work.”⁶⁵
- The **Ford Foundation** and the **Edna McConnell Clark Foundation** (EMCF) have taken up the mantle of unrestricted, multi-year grants.⁶⁶ In assessing its BUILD program, the Ford Foundation found that five-year GOS enables organizations to be more responsive to their beneficiaries, to strengthen their capacities in a timeline that makes sense for their own rate of growth, and to take risks to catalyze change.⁶⁷ EMCF also saw that nonprofits struggled with obtaining basic operational support and therefore adopted multi-year grants as one of its core principles.⁶⁸
- The **Whitman Institute** observes that multi-year general operating support trusts the organization to determine the most effective and best use of resources.⁶⁹

Médecins Sans Frontières (Doctors Without Borders), an international humanitarian medical nonprofit, accepts *only* unrestricted gifts, explaining that this practice allows them to “allocate our resources most efficiently and where the needs are greatest.”⁷⁰ Many other nonprofits would love to follow their lead but fear losing their donors’ support.

Q. When should I give GOS and when should I give restricted support?

A. GOS gifts are ideal when your philanthropic goals align with the

organization's overall mission and it has a proven track record of effectiveness. If you have serious doubts about whether the organization will use your unrestricted donations effectively, you probably should not make a donation at all.

On the other hand, if you and the organization are mutually interested in a particular project, a gift designated for that project may be appropriate. For example, work on this *Guide* was supported by Kathy Kwan, a donor who, together with the Stanford PACS leadership team, believed that the book could provide valuable support for donors interested in effective philanthropy.

Q. Does one or another form of support create greater impact?

A. Not generally. While a small GOS gift might seem like just a drop in the bucket, consider that each drop is likely to contribute proportionally to the organization's outcomes. Very few effective nonprofit organizations run out of capacity to efficiently deliver their services. So if a dollar allows an anti-malaria organization to provide African families with bed nets, then every additional dollar provides a bed net for another family. You wouldn't think of tracking the particular use of your financial investment in a for-profit firm, and it's no different for a nonprofit organization.

That said, there may be instances where an organization asks you to fund a particular need, and you can have impact through a project-oriented gift.

Q. Does one or another form of support allow me to develop confidence in the organization?

A. No. The best way to determine whether an organization deserves your support is to look unobtrusively over the shoulders of its board and CEO and understand how it achieves its mission. You can do this through publicly available materials, such as annual reports, or—if your gift is significant enough—through direct conversations with senior management.

Q. What if I think an organization should develop new areas of work—should I offer to fund projects in those areas?

A. If the idea and request for funding originate with the nonprofit's senior management, you can be pretty sure that your offer of financial support is useful to the organization and its beneficiaries. If the idea originates with you, however, make sure that you aren't inducing "mission creep" that could detract from the organization's overall effectiveness.

A good test question is whether, given additional unrestricted funds, the organization would begin exploring your idea or use the funds for something else.

In any event, if you and the organization agree that it will undertake a new project, the size and duration of your commitment should be commensurate with that undertaking.

Q. Can I make a gift to a nonprofit organization that is earmarked for lobbying?

A. Lobbying is a subset of advocacy and one that is highly regulated by the Internal Revenue Code as well as state laws. While private foundations are entirely forbidden from earmarking grants for lobbying, this prohibition does not apply to gifts from your checking account or DAF. Nonetheless, it's best to leave it to the organization to decide what tools to use and what it may do consistent with the law.

Q. Where does capacity-building support fit into these categories?

A. Capacity-building support is a form of project support that enables an organization to do its work more effectively. It can include

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practice: We fund efforts to collect, analyze, and build the capacity within nonprofits to use relevant data, so they have a basis for understanding what's working and what's not.

support for such things as strategic planning, board recruitment, staff development, and fundraising. Sometimes a capacity-building gift can give the organization's CEO "cover" to meet essential needs that other donors might regard with skepticism. But organizations often would rather have unrestricted support and the autonomy to decide how to devote funds between capacity building and other needs. You might ask a nonprofit whether they would prefer GOS or a restricted grant for capacity-building—or for any other type of project, for that matter.

Q. What about gifts for endowments?

A. Organizations that receive gifts for endowments keep the principal amount (your gift) intact and use the investment income for charitable activities. Endowed gifts reflect the donors' beliefs that the institution will remain strong for many decades, if not centuries, to come—and also help ensure their strength.

To hedge against volatile markets, many institutions spend 5 percent or less of an endowment annually. Although an endowment gift supports an organization for the long term, it provides only a small fraction of an expendable gift each year.

If an endowment fund already exists within an organization—for example, for scholarships—consider adding to it rather than setting up a new fund, which entails additional administrative costs.

Q. Should I be concerned if I am the main funder for a nonprofit organization?

A. Yes. As we suggest in **Chapter 8: Due Diligence**, it's healthy for an organization to have diversified sources of revenue. Moreover, if your gift comprises too much of a nonprofit's funding, the organization could fail the IRS requirement of public support and be reclassified as a private operating foundation, with potential adverse consequences for the organization and its donors.⁷¹

Overhead Costs

Q. What are direct costs, indirect costs, and overhead?

A.

- The *direct costs* of a particular project are expenses, such as the compensation of staff members or travel, that are attributable to the project.
- *Indirect costs* are not directly tied to a specific project but rather shared across multiple projects. They include salaries for staff who do not work directly on the project but are necessary for running the organization for example the organization's CEO, CFO, and development officer and costs like rent, electricity and heat, insurance, back-office functions, training, and technology infrastructure that ultimately affect the organization's ability to execute its programming. Indirect costs are allocated over all the organization's activities and projects.
- *Overhead* is sometimes used as a synonym for indirect costs or for a subset of administrative costs.⁷²

Every project depends on the payment of indirect costs. No organization, whether a nonprofit, business, or other entity, could survive without the contribution of funds for indirect costs. They are every bit as real as direct costs. Funders who do not cover indirect costs contribute to what has been aptly termed the “nonprofit starvation cycle”⁷³ by forcing the organization to incur expenses not covered by their gifts or grants. Yet many donors succumb to the psychological error of “overhead aversion” because it’s much easier to identify with the beneficiaries of a program than with the organization’s essential needs.⁷⁴

Q. How do various kinds of gifts pay for indirect costs?

A. GOS automatically includes overhead costs—an organization’s management can allocate GOS between direct and indirect costs as

needed. Gifts restricted to particular projects may or may not specify what percentage of the funds can be used for indirect costs. If you’re giving restricted funds, you should include a reasonable amount of overhead to ensure that an organization has the resources it needs to run both the project and the organization’s activities necessary to support it.

Q. What are best practices for including indirect costs in funding projects?

A. Here are some suggestions from major organizations and philanthropic experts in the field:

- Independent Sector “recommends that grantmakers pay the fair proportion of administrative and fundraising costs when they do give project support.”⁷⁵
- Center for Effective Philanthropy notes that the “overhead myth,” which forces nonprofits to keep their operating costs very low, is “the most destructive” misconception in the nonprofit sector. It calls for the philanthropy and nonprofit sector to work together to overcome this myth.⁷⁶
- The IDP principles and practices recommend that if donors give project or program support, they “include full indirect costs (overhead) as long as they are in line with organizations of that type.”⁷⁷
- In *Giving Done Right*, Phil Buchanan urges donors not to “buy into the overhead myth” but “seek real performance metrics.” A nonprofit’s performance should be judged by its results, not its budget allocation.⁷⁸

The Plumber

You hire a plumber to unclog your drains. He submits a bill for \$100, but you write him a check for only \$75. When he asks about the other \$25, you explain that you're paying only for his direct costs—his time on the job and any materials used—and not for indirect costs such as maintaining his shop, advertising, insurance, and the like. Outrageous behavior? Absolutely. Yet many philanthropists and foundations treat their grantee organizations this way every day.... While you can be pretty sure that the plumber won't work for you again, most grantees suck it up, skimping on vital systems.⁷⁹

Fabulous Airline

You are about to buy low-price tickets on Fabulous Airline and notice that its website proudly announces, "We have the lowest overhead costs of any airline," with a footnote explaining, "To save you money, we perform the minimum required maintenance on our aircraft; provide minimum emergency training for our flight attendants; and are indefinitely postponing upgrading our computer systems." Would you buy the tickets? Although nonprofit organizations you value may not literally fall out of the sky, consider how a donor who withholds adequate indirect costs impairs their effectiveness.

Q. What are reasonable overhead costs?

A. Reasonable overhead costs depend on the kind of work the organization does. A recent study sorted nonprofits into four broad categories: US direct-service organizations, US policy-advocacy organizations, international networks, and research organizations. It showed indirect costs ranging from 21 percent to 89 percent of direct costs.⁸⁰ We recommend starting with a presumption of at least 20 percent.

Donors should be as concerned if an organization's overhead is *too low* as if it is too high. If overhead is too low, the organization may be skimping on investments in necessary infrastructure, such as computer systems

or staff development. Or the organization might not be paying its staff enough, which, quite apart from morale problems, may just be unfair.

Raising Up Overhead: How We Can Do Better

In *Raising Up Overhead: How We Can Do Better* (October 7, 2019), Lisa Eisen, President of the U.S. Jewish Portfolio of the Charles and Lynn Schusterman Family Foundation, and Barry Finestone, President and CEO of the Jim Joseph Foundation, urge Jewish funders to adopt best practice to ensure that grantees “have the unrestricted capital they need to achieve their missions, sustain healthy organizations, and grow their impact.” They note that this is best done by providing GOS and next best by providing adequate indirect costs or overhead for gifts restricted to specific projects. “At a time when the Jewish community is hungry for change, let’s ensure that organizations can attract and retain talented professionals. Let’s ensure they can be healthy, resilient, and able to integrate the best tools and technology into their work. Let’s ensure they can cover the real cost of their mission-driven work. Let’s ensure they feel empowered to try, fail, learn, and succeed in their quest to shape a vibrant Jewish future.” ejewishphilanthropy.com/raising-up-overhead-how-we-can-do-better

Administration and Reporting

Q. Do I need a contract to make a gift or grant?

A. No. You don’t need a contract for giving GOS. Even for restricted funds, a short letter agreement—or even an email exchange—will usually suffice. If you’re making a large restricted gift and feel it’s important to specify the details of its use and how you would like it reported, you might consider drafting a simple letter outlining the terms of your gift. If a gift for a project includes a budget, we suggest that it allow the recipient organization to use at least 20 percent of the gift for indirect costs. (Note that if you are giving through a DAF, private foundation, or LLC, the institution will typically provide a grant award letter with every grant.)

Q. What kinds of reporting should I ask for?

A. When thinking about monitoring your gifts, be sure you strike a balance between feeling well informed as a donor and overburdening an organization. You have already vetted the organization, so the most important question is whether the organization continues to do valuable work. You can often answer this question via information published by the organization itself, such as newsletters, press releases, and annual reports. If you've made a very large gift, it's reasonable to ask for occasional meetings with the organization's senior staff. (If you are giving through a private foundation or LLC, you may wish to establish a policy about reporting.)

Q. How can I track my own giving?

A. In addition to keeping a record for tax purposes, you may find it useful to keep records of your giving and to note what seems to be working and what not. The tracking software can range from an Excel spreadsheet to off-the-shelf grants management programs. If you give through a DAF, a staffed private foundation, or an LLC, staff members will likely track this for you.

Gift Size, Duration, and Exit

Q. When I meet with the head of an organization or development director, they may propose a larger gift amount than I have in mind. How should I prepare myself and respond?

A. It's good to prepare for any negotiation—and this is a negotiation—by having a clear idea of your terms beforehand. Although you shouldn't be closed to changing your mind based on new information, often the best response is along the lines of: "That's actually more than I had contemplated, but let me [discuss it with my family and] give it some thought and get back to you."

Q. Should I be open to making a larger gift during an organization's campaign or when my gift will be matched?

A. First of all, recognize that most campaigns are essentially marketing devices—opportunities to focus donors on the organization's mission and increase donations and multi-year commitments for existing programs as well as new initiatives. Matching gifts have the added allure of multiplying your individual donation. There's nothing at all wrong with these fundraising strategies. Just keep in mind your own strategic budgeting decisions when responding to them.

Saying "No" to Requests

Many people begin their philanthropy by responding to unsolicited requests—for instance, from their children's schools, their religious institutions, or their alma maters. You have likely developed your own way to decline requests that fall outside of your focus areas and discretionary budgets. In general, it helps to be direct: "Thank you for the opportunity to support education in Chicago, but this is not among my philanthropic priorities." Where appropriate, offer to pass the request to others: "I know someone whose interests may be aligned with your work. Please give me the information and I can try to make connections."

Your family foundation may have a broad mission statement, such as "improving the lives of our city's most disadvantaged people," but your grantmaking may be focused on a particular group of disadvantaged people, such as run-away homeless teens. Organizations seeking your grants may latch onto the mission statement. Be prepared to explain your particular focus at this time.

Q. Suppose I have budgeted \$100,000 per year for a particular focus area (as suggested in Chapter 1). How large a gift should I make out of that budget to a particular organization and what should its duration be?

A. Suppose that you are new to a focus area. You have done research into it, and you have identified a number of promising organizations. One of them has a long and strong record of effectively achieving your goals; several other organizations have passed your initial due diligence process, but you are less certain about them.

In these circumstances you might make a substantial multi-year general operating support grant—perhaps \$70,000 over three years—to the known strong organization and dedicate the remaining funds to one-year GOS gifts to several of the others. This will allow you to monitor their progress to help decide on gifts in future years and, at the same time, learn more about the area. This approach can be useful for experienced philanthropist exploring a new area as well as new donors who want to put their toes in the water before jumping in.

You may sometimes be pressed to make an especially large commitment—for example, during an organization’s campaign. But the occasion of a campaign—even with matching pledges—shouldn’t short circuit your due diligence processes.

Q. In general, what should be the duration of my gift?

A. Relatively small GOS gifts typically have no specific duration, but they are often assumed to be expended within about a year. The recipient organization usually hopes that the gift will be renewed annually. As mentioned earlier, the duration of a project gift should be commensurate with the nature of the project.

If you intend to make a substantial GOS gift or a project gift to be spent over a period of several years, you can either give the full amount now or give the first installment now and state your intention, or pledge, to give

DONOR STORY

What's the right sized-gift for me?

Determining the Right Gift Level Early In a Philanthropy Journey—*Jane Lerner*

I'm relatively new to philanthropy (for about the last three years), so the biggest check I've ever written is that \$15,000 check to Solidaire. I've given some \$10,000 gifts and those came because that was the number that was given to me. I don't know if that's a number that I would necessarily come up with myself, honestly. I'm still very much struggling with that hoarding mentality even while I'm working so hard to be as generous as possible. I'm doing donor organizing to fund electoral work and I'm constantly trying to get people to give more than they're willing to give. Then I turn it back on myself and I'm like, aww man, I should be writing that check too! You know it's funny, I've hit on a sweet spot of \$2,000 to 3,000 as a grant I'm quite comfortable with. It's what feels right to me right now. I wonder as I get older and see my bank account change either up or down how I might shift that. It raises more questions for me than answers.

the remainder later. Organizations value multi-year commitments because they permit longer-range planning.

Q. How should I account for an intended multi-year gift in terms of my philanthropic budget? Suppose that I've earmarked \$100,000 for a particular focus area this year and decide to make three annual grants of \$25,000 to an organization in that area.

A. If, for example, you track your gifts through Excel, it's easy to keep note of your intentions or commitments to make multi-year gifts. You just need to ensure that the earmarked funds will be available in the future years. If you give through a DAF, private foundation, or LLC, they will likely have processes for documenting multi-year commitments and sequestering the future-year funds.

Organizations will appreciate knowing your intentions about multi-year gifts. If you accede to an organization's request to sign a pledge for future

amounts, however, be explicit that the pledge is not legally binding. This will save you a great deal of hassle if your relationship with the organization goes south. It's worth a reminder that the gifts are only tax-deductible when made. If using a DAF, you will already have received the tax deduction when you gave to the DAF. (Although a DAF may make grants that fulfill a pledge, the grant award may not refer to the pledge.)

Q. How can I cease funding an organization without harming its work?

A. Your giving interests and activities may change over time, and this may lead to parting ways with an organization you have supported in the past.

This is not an issue for smaller donations, where an appropriate exit may be as simple as deciding not to give again. But if an organization is reasonably relying on your regular large gifts, we advise giving it as much advance notice as possible. Explain your decision and offer a parting gift. If your exit is based on a change of interests rather than concerns about the organization, consider making a transitional gift to help the organization bridge the gap.

Seven Habits of Excellent Work with Grantees: A Snapshot⁸¹

In early 2020, the Hewlett Foundation launched a Guide for Program Staff at Foundations with recommendations on what staff members should consider as they work with grantees. Many of these tips can apply to individual donors as well.

1. **Respond in a timely and courteous manner** to all grantees and potential grantees.
2. **Show curiosity** about a grantee's whole organization, not only the parts that relate to your strategy and goals.
3. **Set time and process expectations.** Make your expectations and commitments explicit when inviting a proposal and throughout the life cycle of each grant.
4. **Results matter.** Have a conversation with each grantee about how they plan to measure results from the grant.
5. **Flexible and true cost funding.** Provide flexible, multiyear support where possible. When making project grants, understand and support the true cost of the work.
6. **Be clear and consistent about strategy and criteria for decision making** in verbal and written communications with grantees.
7. **Listen as much as you talk** in conversations with grantees.

Making Gifts Takeaways

- ➔ Funders' primary goal should be to advance the effectiveness of the organizations to which they give.
- ➔ If your goals align with the organization's, give long-term, general operating support (GOS).
- ➔ To support effective organizations, pay adequate overhead when you make restricted gifts.
- ➔ Making a gift requires little or no paperwork. Usually a simple donation letter or email will suffice.
- ➔ If you have been making significant gifts to an organization and wish to stop your funding, give as much notice as possible to avoid harming its work.

Giving Gifts Through Long-term General Operating Support⁸²

I was 21 when my parents created a family foundation so their five children could learn about philanthropy. (They called it the French American Charitable Trust, or FACT, because my mother was French and we did some funding in France.) Over the next few years they endowed it with \$40 million.... Over time, FACT's board and staff adopted [these] guiding principles:

- **Focus:** We focused exclusively on supporting community organizing to address poverty and inequality. We accepted no unsolicited proposals so staff time could be devoted to building relationships rather than to wading through mountains of paper.
- **Offer long-term unrestricted support:** Nearly half the 60 organizations we funded received general operating support for ten years or longer.
- **Build grantee's capacity:** Because our groups needed help with organizational issues such as management, administration, finance, and board development, we created an innovative capacity-building program that gave grantees this non-monetary help. We also acted as their advocates, connecting them to other funders and educating the philanthropists about the value of community organizing.

For FACT, following these ... principles produced profound rewards. Here's one example: In 1996, we gave \$30,000 to the Los Angeles Alliance for a New Economy (LAANE). The group was three years old with a budget of \$250,000, and we were one of their first funders. By 1999, our annual grant to LAANE was up to \$100,000, and today the group has a budget of \$4 million and a staff of 44. Through an unusual combination of community organizing, research, economic analysis, and policy advocacy, they have been able to successfully tackle many job issues affecting poor communities. We've cheered as they won city-wide victories that benefitted hundreds of thousands of people, including legally binding living wage ordinances and community benefits agreements with developers.

How To Think About Making Gifts—**Jaan Tallinn**

I have learned a lot about philanthropy in the last 11 years. I started out giving maybe \$5,000 each year and have increased my annual giving to around \$3M by now. One really big problem that plagues philanthropy compared to investments—which I’m also doing—is that it’s very hard to measure outcomes. More precisely, it’s very hard to know what would have happened if you didn’t make that donation. So, I tried three approaches to this. One is just donating to support the creation of something. For example, I’m very enthusiastic about supporting software development. If there’s somebody who’s developing software for public consumption that wouldn’t otherwise get funded, that is very concrete: you can see the result. And it’s easy to know what would happen if you didn’t make the donation: the software wouldn’t get built. Second, I look at the track record of organizations and donate to them to continue what they’re doing. The hope is that based on their track record, the organization can demonstrate that they’re making a difference. The third one is that I take an angel investor-approach to philanthropy, where I gave multiple small donations to causes, even if I am unsure of their value, and then have quarterly updates with them. Every quarter I can check to see if the donations are making a difference: are they expanding, do they need more resources, etc. In the beginning, these small quarterly donations were divided across about a \$10,000 annual minimum. And if the organization continued to deliver, my maximum was \$100,000 per year, and that might last for six or seven years.

THE STANFORD PACS

GUIDE

TO EFFECTIVE PHILANTHROPY

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